VZCZCXRO9990
RR RUEHDU RUEHJO RUEHMR
DE RUEHSA #2730/01 1870631
ZNR UUUUU ZZH
R 060631Z JUL 06
FM AMEMBASSY PRETORIA
TO RUEHC/SECSTATE WASHDC 4345
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUCPCIM/CIMS NTDB WASHDC
RUCPDC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 04 PRETORIA 002730

SIPDIS

SIPDIS

DEPT FOR AF/S/MTABLER-STONE; AF/EPS; EB/IFD/OMA
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND
TREASURY FOR OAISA/RALYEA/CUSHMAN
USTR FOR COLEMAN

E.O. 12958: N/A
TAGS: ECON EINV EFIN ETRD BEXP KTDB PGOV SF
SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER
JUNE 30 2006 ISSUE

¶1. (U) Summary. Once every two weeks, Embassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter are:

- China agrees in principle to textile export cap
- Government to speed up land reform
- Inflation growing, but within target range
- Reserve Bank warns of future interest rate hikes
- Standard and Poor's reaffirms SA long-term national scale ratings
- First quarter job growth slow
- Gauteng education budget may fall short of need
- Government expands healthcare subsidies
- Virgin launches credit card, cellular network
- Government approves Richards Bay smelter
- Eskom urges restructuring electrical Distribution

End Summary.

China agrees in principle to textile export cap
---------------------------------------------- --

¶2. (U) President Thabo Mbeki and Premier Wen Jiabaou announced on June 21 that China would restrict its textile exports to South Africa in order to preserve a role for struggling domestic producers. Although the details of the deal will be established by negotiations over the next month, Beijing publicly stated that it is willing to cap its exports at two-thirds the current level through 2008. This agreement will cover 31 categories of apparel and textiles, with individual restrictions placed upon 100 specific products. The short-term deal could allow South African textile manufacturers time to address their competitive weaknesses; however, the South African industry has been in decline for the last 15 years, with foreign competition representing only a portion of its woes. According to clothing companies and unions, South Africa lost 63,000 textile jobs over the last three years. South Africa faces both high unemployment (officially 27%, but 39% by a broader measure including discouraged workers) and a major current-account deficit. Sources: Business Day, June 19; Forbes, June 21; Business Report, June 22; Financial Mail, IOL, June 23.

Government to speed up land reform
---------------------------------

¶3. (U) The Department of Agriculture and Land Affairs announced additional details on its plans to speed up stalled land reform. On June 17, Minister Lulu Xingwana pledged "drastic measures" to deal with recalcitrant owners of under-utilized land, though stressing that the government would take action solely through legal means, such as eminent domain. The Department declared that it plans to adopt an area-based approach that will focus on specific agricultural commodities demanded by the market and seek to consolidate infrastructure for more efficient local projects. In response, black and white farmers' organizations reaffirmed their support for land reform, provided that the government works with landowners and offers the training and material support necessary to improve the prospects for recipients of land. At present, most of the farms owned by beneficiaries of land reform fail have seen sharp decreases in output. The government's goal is for black farmers to own 30% of South African farmland by 2014. Presently, 4% is black-owned. Sources: SABC, June 17; Herald Eastern Cape, June 18; Business Day, June 26 and 28; Reuters, June 26.

Inflation growing, but within target range
------------------------------------------

¶4. (U) Due largely to more expensive petroleum and food, CPIX (CPI adjusted for mortgage costs) annualized inflation rates rose from 3.7% year-on-year in April to 4.1 in May, in line with market



expectations. The increase confirms suspicions that the South African Reserve Bank (SARB) will increase interest rates as inflation continues to rise through the rest of 2006. The SARB maintains an inflation target range of 3-6%. In a troubling sign, however, the producer price index (PPI) rose 5.9% year-on-year in May from 5.5% in April. The PPI tends to lead consumer prices by several months. Sources: Mail and Guardian, June 29; Business Day, June 29-30.

Reserve Bank warns of future interest rate hikes
--------------------------------------------- ---

¶5. (U) Tito Mboweni, South African Reserve Bank (SARB) Governor, warned on June 22 that a widening Current account deficit and unchecked consumer spending would likely lead to an increase in interest rates if the SARB is to keep inflation in check. Though dismissing fears that the economy is overheating and saying that "things generally look good," he expressed concern that a spate of conspicuous consumption indicated that borrowing is too cheap. Data released by the SARB that day showed that South Africa's current account deficit in the first quarter of 2006 widened to 6.4% Of GDP from 4.5% in the final quarter of 2005. The rand fell significantly in the wake of the announcement to R7.41/$, its lowest value in 29 months. Source: IOL, Mail and Guardian, June 23.

Standard and Poor's reaffirms SA long-term national scale rating
--------------------------------------------- -----

¶6. (U) South Africa maintained its AAA long term National scale ratings from Standard & Poor's, Though the report expressed severe concern about several of the country's "structural socioeconomic weaknesses, including income disparities, poverty,

high unemployment, and the unfolding HIV/AIDS pandemic." Standard & Poor's declared South Africa to have an overall stable outlook, maintaining its BBB+ long-term and A-2 short-term foreign currency ratings and an A+ long-term and A-1 short-term currency sovereign credit ratings. South Africa earned commendation for its cautious fiscal policy, continuing economic reforms, and expanding social services. Definitions of all ratings are available at www.standardandpoors.com. Source: iAfrica, Standard & Poor's, June 19.

First quarter job growth slow
-----------------------------

¶7. (U) Statistics SA reported on Tuesday that the economy created 9000 formal non-agricultural jobs in the first quarter of 2006. Despite strong economic growth of 4.2% (annualized rate), seasonal job losses in the wholesale and retail sectors prevented the economy from making significant progress on unemployment. Gross earnings by employees fell by 3.7%. While the modest employment rate increase (0.1%) is certainly preferable to the 152,000 jobs lost in the first quarter of 2005, it is still a disappointing fall from the 90,000 jobs created in the fourth quarter of 2005. South African labor union Cosatu said in a statement that South Africa needed to double employment growth if it is to meet its goal of halving unemployment by 2014. Cosatu pledged to intensify its efforts to make growth more equitable through its Jobs and Poverty Campaign, claiming that the statistics demonstrated a growth strategy tailored for the elite. Source: Business Day, Mail and Guardian, SouthAfrica.info, June 28.

Gauteng education budget may fall short of need
---------------------------------------------- --

¶8. (U) The Wits University Education Policy Unit Issued a warning on June 19 that the public education budget for the Gauteng province, including both Johannesburg and Pretoria, may be insufficient for the challenges its schools face. Gauteng's population is growing Steadily due to migration from other



provinces, and its education system faces a severe shortage of classroom space. Source: Business Day, June 20.

Government expands healthcare subsidies
---------------------------------------

¶9. (U) The Department of Public Service and Administration announced on June 22 that it will increase subsidies for the Government Employees Medical Scheme (Gems), which presently covers only 60% of the country's one million government employees. The government will now pay 100% of insurance premiums for employees earning less than R60,000/yr ($8225) and 75% for all others, though it capped subsidies at R1900 ($260) per month for each family and R500 ($68) for individuals. Sapphire, the cheapest insurance pack-age offered through Gems, costs R981 per month for the average South African family of five. The offer will cost roughly R6 billion ($822.5 million) over the next three years, according to government estimates. Sources: BuaNews, Business Day, June 23.

Virgin launches credit card, cellular network
---------------------------------------------

¶10. (U) In a blaze of publicity, Richard Branson's Virgin Group launched two major brands in South

Africa this week: its Virgin Money financial services and Virgin Mobile cellular network. Both divisions pledge to lower prices for consumers by taking on established, complacent industry players. Consumers can anticipate falling prices in both fields, as Virgin's dramatic market entry has already triggered fee cuts from rivals trying to maintain their market share. Rates for both credit cards and mobile phone services in South Africa are among the highest in the world, well above those in comparable markets. Virgin Money, while not yet fully operational, will ultimately offer customers the lowest credit card rates in South Africa as well as offering short-term insurance, investment services, and mortgages. Virgin Money is in a joint venture with Absa, one of South Africa's big four banks. Virgin Mobile SA, a R700 million ($97 million) joint project with minor market player Cell C, will be the fourth brand in a market dominated by Vodacom and MTN. Sources: MoneyWeb, June 29; The Star, June 28; Financial Mail, June 30.

Government approves Richards Bay smelter
----------------------------------------

¶11. (U) The provincial government of KwaZulu-Natal granted Tata Steel permission to begin work on its proposed $87.5 million ferrochrome smelter in Richards Bay, an industrial center on South Africa's east coast, dismissing health and environmental concerns raised by local NGOs. During the four years of legal action, However, the government approved several restrictions on the company designed to safeguard the community. Construction will begin within a month, according to the corporation. Source: Pretoria News.

Eskom urges restructuring electrical distribution
--------------------------------------------- ----

¶12. (U) National electrical utility Eskom is calling for reform of the nation's local electricity distribution network, particularly in rural areas, lest the country face power failures. Eskom is embarking upon a major expansion of its generating capacity, but fears that its investments in power Plants and transmission lines are not being matched by local authorities. It estimates that two-thirds of municipalities under-fund electrical distribution. To address the problem, Eskom proposed that the government create seven regional electrical distributors (REDs), six based out of South Africa's major municipalities and the seventh to cover the remainder of the country, including rural areas lacking the resources to properly maintain their own distribution networks. The Energy Intensive Users



Group, an organization whose 25 members represent 40% of South African electrical consumption, issued a statement in support of Eskom's proposal, citing the need for reliable national power. South Africa's electrical network suffered through the past year, as a maintenance shutdown of one of its nuclear reactors at Koeberg caused blackouts in the Western Cape. Source: iAfrica, Energy Intensive Users Group, June 22.

TEITELBAUM